

Issue Paper Number **09-008**



BOARD OF EQUALIZATION
KEY AGENCY ISSUE

- ☐ Board Meeting
- ☐ Business Taxes Committee
- ☐ Customer Services and
Administrative Efficiency
Committee
- ☐ Legislative Committee
- ☒ Property Tax Committee
- ☐ Other

Offset Lithographic Printing Presses – Business Property Assessment Practices Guidelines

I. Issue

What valuation factors for offset lithographic printing presses should the State Board of Equalization (BOE) adopt for inclusion in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*?

II. Alternative 1 – Offset Lithographic Printing Press Team Recommendation

The Offset Lithographic Printing Press Team recommends that the attached valuation factors, including the definition of offset lithographic printing press, be adopted by the BOE for inclusion in the 2010 revision of Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (Attachment A).

III. Other Alternative(s) Considered

None

IV. Background

The BOE co-administers the property tax in California with the county assessors. The 58 county assessors are charged with the assessment of locally assessed real and personal property for taxation purposes and resolution of appeals of property values at the local level in conjunction with county assessment appeals boards. The BOE's role is advisory and does not include setting values for any locally assessed property or for resolving disputes over those assessments.

Section 401.5 of the Revenue and Taxation Code requires that the BOE issue to county assessors data relating to costs of property and other information to promote uniformity in appraisal practices and in assessed values throughout the state. In an effort to comply with section 401.5, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). The index factors published in AH 581 are generally reliable for converting a property's original cost to an estimate of reproduction cost new (RCN). Percent good factors, which are the complement of depreciation factors, are then applied to the RCN to arrive at an estimate of market value.

The California Assessors' Association (CAA) annually publishes a position paper entitled *Business Assessment Factors*. This publication cites AH 581 equipment index factors, percent good factors, and valuation factor for use by all California Assessors in mass appraisal programs. The publication provides specific guidance in the direct use of the factors published in AH 581, including recommended lives for a wide range of personal property. Currently the CAA recommends the use of the trended 12 year average service life percent good factor from table 4 of AH 581 when assessing print shop equipment.

In June 2008, the BOE directed staff to develop further valuation factors for AH 581 by conducting valuation studies for various industries that petition BOE staff for a study of their industry property/equipment. On March 16, 2009, BOE staff approved industry's petition requesting BOE staff conduct a valuation study of offset lithographic printing presses.

- BOE staff developed a market data set consisting of 54 matched data points. Each matched data point consists of original price new less discount (street price) and the corresponding price of the press when sold used to an end user (used price). Street prices and used prices were verified by reviewing sample invoices. The source for the data was leading manufacturers of offset lithographic printing presses. BOE staff also obtained the Bureau of Labor Statistics Producer Price Index for equipment of this class.
- In keeping with the format established on past valuation studies conducted by the BOE, BOE staff established a team to participate in the study. The Team consisted of two BOE staff members, two representatives from the county assessors, and two representatives from industry.

V. Discussion

BOE staff spent several months reviewing, collecting, organizing and analyzing the market data. Once the team was in place, BOE staff presented its analytical findings of the market data to the Team, including a draft definition of the study, for the Team's review and consideration. The Team refined the definition of the study. Additionally, all Team members agreed that the market data set does not provide a strong enough trend to rely exclusively on the market data. As a result, the Team considered alternative qualitative approaches in drawing a conclusion. After a number of discussions of alternative qualitative analyses, the Team reached an agreement on proposed valuation factors that are based in part on the market data. The Team's agreement on the proposed valuation factors, and definition, for offset lithographic printing presses is illustrated in Attachment A.

The assessor representatives requested that a note be made for public record that they were not privy to confidential market data collected for this study and that their participation was based on an overall review of the study's process and procedures and high level discussions regarding the alternative qualitative analysis in arriving at the Team's final recommended valuation factors and development of the definition.

VI. Alternative 1 – Offset Lithographic Printing Press Team Recommendation

What valuation factors for offset lithographic printing presses should the BOE adopt for inclusion in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*?

A. Description of Alternative 1

The Offset Lithographic Printing Press Team recommends that the attached valuation factors, including the definition, for offset lithographic printing presses be adopted by the BOE for inclusion in the 2010 revision of Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (Attachment A).

B. Pros of Alternative 1

Adoption of Alternative 1 is reflective of the best information available and will result in the majority, if not all, of the California County Assessors using the AH 581 when estimating market values for offset lithographic printing presses. This will lead to more uniform assessments for taxpayers.

C. Cons of Alternative 1

None.

D. Statutory or Regulatory Change for Alternative 1

None.

E. Operational Impact of Alternative 1

None.

F. Administrative Impact of Alternative 1

1. Cost Impact

None.

2. Revenue Impact

It is anticipated that there will be a small revenue impact in application of the valuation factors in Alternative 1 when compared to application of the current CAA recommendation. The recommended valuation factors represent a decrease in the valuation of offset lithographic printing presses.

G. Taxpayer/Customer Impact of Alternative 1

Taxpayers will experience a decrease in their assessment of offset lithographic printing presses as a result of Alternative 1.

H. Critical Time Frames of Alternative 1

The valuation factors discussed in this Alternative ultimately will be published in the 2010 revision of AH 581. AH 581 will go to the BOE for adoption at its December 2009 meeting.

Preparer/Reviewer Information

Prepared by: Property and Special Taxes Department; County-Assessed Properties Division

Current as of: November 19, 2009

TABLE 11: Offset Lithographic Printing Presses Valuation Factors

Year Acquired	Age	Offset lithographic printing presses
2009	1	91
2008	2	82
2007	3	74
2006	4	66
2005	5	58
2004	6	50
2003	7	43
2002	8	37
2001	9	31
2000	10	23
1999	11	20
1998	12	17
1997	13	13

USE OF TABLE 11

The Offset Lithographic Printing Presses Valuation Factors table was adopted by the BOE on December 15, 2009 and became effective as of the lien date January 1, 2010. For mass appraisal purposes, these factors are intended to be applied directly to historical costs of offset lithographic printing presses. A 10 percent minimum valuation factor applies to devices beyond age 13.

DEFINITION OF OFFSET LITHOGRAPHIC PRINTING PRESSES

Offset lithography is a printing process in which the image area and the non-image area co-exist on the same plane, rather than raised (in the letterpress process) or etched (in the gravure process). The two basic varieties of offset lithography are sheet fed offset lithography and web offset lithography.

The valuation factors are intended to be applied to sheet fed offset lithography printing presses.

The offset lithographic printing unit has three principal cylinders: a *plate cylinder*, to which the inked image on a plate is attached, a *blanket cylinder*, to which the offset blanket is attached, and an *impression cylinder*, which carries the paper through the printing unit and provides a solid surface against which the offset blanket can impress the image on the paper or other surface.

The valuation factors are not intended to be applied to plateless or non-impact printing presses (i.e., digital printing or quick printing) or web fed (continuous fed) printing presses. Additionally, the valuation factors are not intended to be applied to other equipment used in print production, such as "prepress" equipment (used to transform an original into a state that is ready for reproduction for printing) and "postpress" equipment (equipment used to finish or bind the printed material).